

Office of the State Auditor
Division of State Audit

Department of Public
Instruction
Bismarck, North Dakota

Audit Report for the
Biennium Ended June 30, 2007
Client Code 201

Robert R. Peterson
State Auditor



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Transmittal Letter

November 7, 2007

The Honorable John Hoeven, Governor

Members of the North Dakota Legislative Assembly

The Honorable Dr. Wayne Sanstead, Superintendent, Department of Public Instruction

We are pleased to submit this audit of the Department of Public Instruction for the biennium ended June 30, 2007. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Delan Hellman. Cindi Pedersen, CPA, was the audit supervisor. Inquiries or comments relating to this audit may be directed to the audit supervisor by calling (701) 328-4743. We wish to express our appreciation to Dr. Wayne Sanstead and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson
State Auditor

Executive Summary

INTRODUCTION

The North Dakota Department of Public Instruction (Department) is required to enforce all state statutes and federal regulations pertaining to the establishment and maintenance of public schools and related programs, and supervise the North Dakota School for the Deaf, Blind/Vision Services, and the State Library. The Department is to operate efficiently and effectively, expand the delivery options that increase educational opportunities for all North Dakota citizens, evaluate and communicate educational policy and vision to all North Dakota citizens, and serve as an advocate for adequate financial resources to support public education.

RESPONSES TO LAFRC AUDIT QUESTIONS

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

1. What type of opinion was issued on the financial statements?

Financial statements were not prepared by the Department of Public Instruction in accordance with generally accepted accounting standards so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Other than our findings addressing "Noncompliance With In-State Lodging Expense Reimbursement Law" (see page 23), the Department of Public Instruction was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

3. Was internal control adequate and functioning effectively?

Other than our finding addressing the "Computer Access Controls Weakness" (see page 19), we determined internal control was adequate.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

Other than our work addressing "Grant Closing Procedures" (see page 25) and "Purchase Card Usage" (see page 26) there were no indications of lack of efficiency in financial

operations and management of the Department of Public Instruction.

5. *Has action been taken on findings and recommendations included in prior audit reports?*

The Department of Public Instruction has implemented all recommendations included in the prior audit report except for the area readdressed in the "Computer Access Control Weakness" finding (see page 19).

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes, a management letter was issued and is included on page 28 of this report, along with management's response.

LAFRC AUDIT COMMUNICATIONS

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The Department of Public Instruction's financial statements do not include any significant accounting estimates.

3. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance, Human Resource Management System (HRMS), Foundation Aid Payment System, and Child Nutrition and Food Distribution System are high-risk information technology systems critical to the Department of Public Instruction.

Background Information

The purpose of the Department of Public Instruction is to promote the enhancement of quality education through the school improvement process and provide leadership in the promotion of programs designed to benefit the intellectual development, mental health, social adjustment, and physical well-being of all North Dakota citizens.

The primary programs of the Department of Public Instruction include: School Food and Nutrition; Title I and Health Education; Special Education; School Approval and Accreditation; School Improvement; Native American Education; Adult Education; and Curriculum Development. The agency is responsible for educational technology, data collection, and management information system development. Under the umbrella of the Department of Public Instruction is the North Dakota State Library, School for the Deaf, and Blind/Vision Services.

Effective January 1991, authority for the supervision of the School for the Deaf, Blind/Vision Services, and the State Library was transferred to the Department of Public Instruction. The North Dakota School for the Deaf serves to educate children with severe to profound hearing loss who are residents of North Dakota and are between the ages of zero and twenty-one. Out-of-state students are accepted on a tuition basis. North Dakota Blind/Vision Services is a statewide comprehensive resource that works cooperatively with related agencies in providing a full range of services to all persons who are blind or visually impaired, including those with multiple disabilities. The North Dakota State Library provides leadership for comprehensive informational and educational opportunities for all citizens, libraries, and government officials of the state.

Department of Public Instruction includes:

- ND State Library
 - School for the Deaf
 - Blind/Vision Services
-

The North Dakota Department of Public Instruction's final budget for the 2005-2007 biennium totals \$987 million. This represents a 5% increase over the 2003-2005 budget. The state general funds comprise 66% of the 2005-2007 budget.

More information about the Department can be obtained from the Department of Public Instruction's home page at: www.dpi.state.nd.us.

The agency regularly reports to the Education Committee and the No Child Left Behind Committee.

Audit Objectives, Scope, And Methodology

Audit Objectives

The objectives of this audit of the Department of Public Instruction for the biennium ended June 30, 2007 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the most important areas of the Department of Public Instruction's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Department of Public Instruction and are they in compliance with these laws?
3. Are there areas of the Department of Public Instruction's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the Department of Public Instruction for the biennium ended June 30, 2007 was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. To meet the objectives outlined above, we:

Audit Methodology

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and reviewed management's discussion and analysis of the financial statements.
- Performed detailed analytical procedures for expenditures and receipts.
- Tested samples of expenditures, journal vouchers, and correcting entries.
- Reviewed prior year audit workpapers.
- Interviewed appropriate agency personnel.
- Reviewed the Department's written plans and applicable manuals.
- Reviewed the Department's biennial report.
- Observed the Department's processes and procedures.
- Reviewed North Dakota Century Code chapters 14-06, 15.1-01, 15.1-02, 15.1-03, 15.1-06, 15.1-07, 15.1-21, 54-24, 54-24.2, 25-06, and 25-07, as well as the 2005 and 2007 Session Laws.
- Conducted on-site testing at the School for the Deaf, Blind/Vision Services, and the North Dakota State Library.
- Tested the Foundation Aid Payment computer system that allocates the majority of the monies received by the schools.

- Tested the Child Nutrition and Food Distribution computer systems.
- Reviewed the procedures used by the Department of Public Instruction, School for the Deaf, Blind/Vision Services, and the North Dakota State Library to close out grants.
- Analyzed the use of purchase cards by the Department of Public Instruction, School for the Deaf, Blind/Vision Services, and the North Dakota State Library.
- Searched for recent studies or reports relating to the North Dakota Department of Public Instruction, School for the Deaf, Blind/Vision Services, and the State Library.

Management's Discussion And Analysis

The accompanying financial statements have been prepared to present the Department of Public Instruction's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

The following management discussion and analysis was prepared by the Department of Public Instruction's management. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of this supplementary information to ensure it does not conflict with the knowledge we gained as part of our audit.

For the biennium ended June 30, 2007, operations of the Department of Public Instruction were primarily supported by appropriations from the state's general fund. This is supplemented by federal funding.

FINANCIAL SUMMARY

School for the Deaf, Vision Services\School for the Blind, and the State Library have been combined with the Department of Public Instruction for financial statement reporting purposes.

Revenues consisted primarily of federal funds, as well as transfers from the State Tuition and Common Schools Funds. Other revenues during the audited period include payments for processing of food commodities. Total revenues were \$159,740,972 for the year ended June 20, 2007 as compared to \$154,144,231 for the year ended June 30, 2006. The increase of \$5,596,741 in total revenue for the audited period was due to an increase in federal grant drawdown requests to reimburse North Dakota school districts for actual costs incurred under the various programs.

Total expenditures for the Department of Public Instruction were \$484,810,922 for the year ended June 30, 2007 as compared to \$473,703,917 for the prior year. The increase of \$11,107,005 in total expenditures for the audited period was mainly due to an increase in North Dakota school district requests for reimbursement of allowable federal program expenditures, an increase in the foundation aid per pupil payment for the second year of the biennium, and the distribution of an additional \$5,200,000 in foundation aid payments to North Dakota school districts at the end of fiscal year 2007.

ANALYSIS OF SIGNIFICANT VARIANCES BETWEEN FINAL BUDGETED AND ACTUAL EXPENDITURES

There was one significant variance between the final budgeted and actual amounts. The Department had significant unexpended appropriation authority in the Grants – Other Grants line item. This was due to school districts not spending the grant funds available to them during the biennium at the rate the Department had anticipated.

MAJOR AGENCY ACCOMPLISHMENTS/INITIATIVES

DEPARTMENT OF PUBLIC INSTRUCTION

- Produced staff wellness quarterly newsletter.
- Awarded a Team Nutrition grant to train school food service personnel in implementing the 2005 Dietary Guidelines and My Pyramid.
- In collaboration with the Department of Human Services, implemented a preliminary system for identifying children eligible for free USDA school meals.
- Designed an HIV/Significant Contagious Diseases (SCD) Fact Sheet for schools.
- Created, edited, and published the “Teens Caring for Themselves and Each Other” curriculum.
- Rewrote the majority of the Online Reporting System (ORS) to a new system called the State Automated Reporting System (STARS).
- Handled over 1,000 data requests and mailings, provided training to over 200 users on the use of the online reporting system.
- Provided in-person as well as group training for school improvement efforts. In addition, new reporting forms were developed in concert with school-based professionals to assure meaningful, quality reporting. Feedback mechanisms were developed to provide timely feedback to schools and to identify the school’s next steps.
- Worked actively throughout most of the 2005-2007 biennium with issues related to a funding equity lawsuit.
- A State Leadership Team was created to guide the development of an emerging education process referred to as “Response to Intervention” (RTI).
- Organized and sponsored a Secondary Transition Institute. This forum brought together young people with disabilities, parents, school personnel, higher education representatives, and representatives from other local and state agencies to improve the process for identifying and meeting the needs of secondary students with disabilities.

- Supervised, with the contractual assistance of the Wisconsin Center for Education Research, University of Wisconsin-Madison, the first administration of the ACCESS English language learner assessment during the 2006-07 school year.
- Submitted for peer review a mandated, comprehensive study of the North Dakota State Assessment system, as required under provisions of the Elementary and Secondary Education Act.
- Sponsored reading academies, assessment training, and other technical assistance training to Reading First staff throughout the state.
- Annual Reading Month and Math Month packets were created and distributed to all schools in North Dakota to celebrate reading month in February.

SCHOOL FOR THE DEAF

- Served as a state-wide resource center providing assistance (assessments, evaluations, consultations), information, materials, and other resources to schools, agencies, health/medical organizations, parents, families, and a wide variety of other interested individuals and/or groups.
- Began services to adults by providing assistance to/for deaf, hard of hearing, late-deafened adults from differing backgrounds and a wide range of needs. A variety of services/resources are available to support the challenges presented by hearing loss. Assistance to individuals of all ages have been provided to help them cope with ramifications of hearing loss.

Examples:

- Adult support group established in Fargo area
 - Training and support to adult deaf woman with cochlear implant and service providers in Cavalier area
 - Assistive device presentations in all areas of ND
- Carried out Blue Ribbon Task Force recommendations such as: reduced staff through attrition, expanded mission to permit delivery of non-duplicatory programs/services to deaf/hard of hearing adults over age 21, consolidated student dormitories, and further expanded lease agreements to increase revenue generation.
- Maintained NCA accreditation.
- Completed most of the facility energy improvements through the guaranteed energy savings contract.

VISION SERVICES/SCHOOL FOR THE BLIND (NDVS/SB)

- Conducted a self-study in 2006-2007 with a site review on April 30 through May 2, 2007. The outcome was maximum reaccreditation by the National Accreditation Council for Agencies Serving the Blind and Visually Impaired (NAC) through June 30, 2012.
- Increased instruction in expanded core curriculum for persons who are blind and visually impaired, including those with multiple disability as demonstrated by data.
- Implementation of a Special Education Course Code for grades 9-12 for instruction in the expanded core curriculum (Braille, Assistive Technology, Orientation and Mobility, Daily Living Skills, Career and Vocational Education, Braille Music Code, Recreation and Leisure Skills, Visual Efficiency Skills, Social Interaction Skills, and Self Determination Skills).
- Updating and ongoing implementation of the Strategic Plan (vocational/technology, public awareness, programming, and evaluation), including the development of a NDVS/SB Vision which reads: "To be recognized as state and national leaders in the field of visual impairment."
- Accessibility and updating of the website through the Public Awareness Strategic Team.
- UND student interns in the Counseling and Psychology Departments provide counseling, testing, and adjustment to blindness for students and adults and their family members.

STATE LIBRARY

- The State Library staff provided training to equip librarians and citizens throughout the state with the resources and ability to directly search for information. The State Library has reorganized to provide an enhanced training program for professional development for librarians and to provide lifelong learning tools for citizens. This is accomplished through onsite training to maximize the use of Online Library Resources (OLR) and the use of the statewide online library catalog. The State Library offers librarians, students, and citizens training in the use of the OLR and many librarians took advantage of the onsite training. In 2005-07, a total of 1,407 individuals were enrolled in the training sessions.
- The State Library requested and received \$200,000 from the 2005 Legislature to provide Online Library Resources to the citizens of North Dakota. The resources Opposing Viewpoints, Health and Wellness Resource Center, and Ancestry Library Edition have been available to all North Dakota citizens throughout the 2005-07 biennium. North Dakota citizens used the Online Library Resources to perform 3,238,976 searches for information in 2006 (an increase of 300% from 2004 to 2006). The State Library has also negotiated a state-wide contract on behalf of libraries and the general public for access to OCLC's WorldCat. Every North Dakota librarian, student, or citizen can access the

holdings of 57,000 libraries worldwide, as well as over 3 million North Dakota records, through their local library catalog or through Google. Items located through WorldCat can be requested through the interlibrary loan department of local libraries or the State Library.

The Statewide Catalog Development Department provides high quality cataloging services to libraries across North Dakota. This department catalogs the collections of 53 libraries, adding their holdings to Online Dakota Information Network (ODIN), with the overall goal to automate the libraries and have their collections available to the citizens of North Dakota via the interlibrary loan program. Since this department began, over 457,000 titles have been added to the Statewide Online Library Catalog.

Financial Statements

STATEMENT OF REVENUES AND EXPENDITURES

	June 30, 2007	June 30, 2006
<u>Revenues and Other Sources:</u>		
Federal Revenue	\$122,396,390	\$116,673,285
Intergovernmental Reimbursements	280,666	361,872
Rents	260,815	255,799
Sales and Services	257,849	717,960
Other Revenue	218,129	174,342
Conference Registration Fees	85,063	45,837
Transfers In	36,242,060	35,915,136
Total Revenues and Other Sources	<u>\$159,740,972</u>	<u>\$154,144,231</u>
<u>Expenditures and Other Uses</u>		
Grants	\$464,773,755	\$454,680,729
Salaries and Benefits	9,638,797	9,249,775
Major Operating Expenses:		
Professional Services	6,672,702	6,331,008
Travel	765,273	669,966
Data Processing / Telecommunications	439,591	545,874
Supplies	354,635	573,867
Operating Fees and Services	343,211	345,768
Postage / Printing	268,433	203,345
Lease of Space / Utilities	261,601	248,312
IT Costs	157,050	124,165
Professional Development	149,518	121,125
Lease / Purchase Equip. Under \$5,000	79,842	62,886
Other Operating Expenditures	310,908	237,470
Transfers Out	595,606	309,627
Total Expenditures and Other Uses	<u>\$484,810,922</u>	<u>\$473,703,917</u>

STATEMENT OF APPROPRIATIONS (DPI)

For The Biennium Ended June 30, 2007

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 10,056,952	\$ 30,600	\$ 10,087,552	\$ 9,719,256	\$ 368,296
Operating Expenses	14,892,308	3,319,900	18,212,208	15,885,671	2,326,537
Grants-Foundation Aid	517,553,759		517,533,759	510,627,660	6,926,099
Grants-Tuition Apportionment	71,600,000		71,600,000	71,270,531	329,469
Grants-Special Education	52,500,000		52,500,000	52,500,000	
Grants-Revenue Supplement	5,000,000		5,000,000	5,000,000	
Grants-Other Grants	207,999,083	35,349,000	243,348,083	226,585,794	16,762,289
Grants-Teacher Compensation	50,912,120		50,912,120	50,912,120	
Reorganization Bonuses	759,000		759,000	759,000	
Eligible Education	1,000,000		1,000,000	1,000,000	
Transportation Efficiency	30,000		30,000	30,000	
National Board Certification	40,000		40,000	16,000	24,000
Totals	<u>\$932,343,222</u>	<u>\$38,699,500</u>	<u>\$971,042,722</u>	<u>\$944,306,030</u>	<u>\$ 26,736,692</u>
Expenditures by Source:					
General Fund	\$636,443,587	\$ 275,000	\$636,718,587	\$629,725,694	\$ 6,992,893
Other Funds	295,899,635	38,424,500	334,324,135	314,580,336	19,743,799
Totals	<u>\$932,343,222</u>	<u>\$38,699,500</u>	<u>\$971,042,722</u>	<u>\$944,306,030</u>	<u>\$ 26,736,692</u>

Appropriation Adjustments:

There was an increase of \$30,600 to the Salaries and Benefits line, an increase of \$44,900 to the Operating Expenses line, and an increase of \$349,000 to the Grants - Other Grants line that was approved by the Emergency Commission to accept additional federal funds for special education teachers and speech-language pathologists for the period ending June 30, 2007.

There was an increase of \$2,000,000 to the Operating Expenses line and an increase of \$20,000,000 to the Grants - Other Grants line that were made pursuant to Senate Bill 2013 Section 5 from the 2007 Legislative Session (which had an emergency clause), for operating expenses and to fulfill the existing federal grants to school districts through the end of the biennium.

The increase of \$1,000,000 to the Operating Expenses line and the increase of \$15,000,000 to the Grants - Other Grants line was approved by the Emergency Commission to expend previously received federal funds for operating expenses and for grants to the state's school districts.

The \$275,000 increase to the Operating Expenses line was made pursuant to Senate Bill 2023 Section 1 Subdivision 1 from the 2007 Legislative Session (which had an emergency clause), for operating expenses through the end of the biennium.

Expenditures Without Appropriations Of Specific Amounts:

Revolving Printing Fund has a continuing appropriation authorized by NDCC section 15.1-03-03 (\$25,401 of expenditures for this biennium).

Conference Fund is non-appropriated per OMB Policy 211 (\$132,284 of expenditures for this biennium).

STATEMENT OF APPROPRIATIONS (STATE LIBRARY)

For The Biennium Ended June 30, 2007

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 2,232,082		\$ 2,232,082	\$ 2,222,807	\$ 9,275
Operating Expenses	1,381,772		1,381,772	1,367,065	14,707
Grants	1,552,500		1,552,500	1,447,979	104,521
Totals	<u>\$ 5,166,354</u>		<u>\$ 5,166,354</u>	<u>\$ 5,037,851</u>	<u>\$ 128,503</u>
Expenditures by Source:					
General Fund	\$ 3,507,082		\$ 3,507,082	\$ 3,505,651	\$ 1,431
Other Funds	1,659,272		1,659,272	1,532,199	127,073
Totals	<u>\$ 5,166,354</u>		<u>\$ 5,166,354</u>	<u>\$ 5,037,851</u>	<u>\$ 128,503</u>

Appropriation Adjustments:

There were no appropriation adjustments for State Library during the biennium ended June 30, 2007.

Expenditures Without Appropriations Of Specific Amounts:

All expenditures were appropriated.

STATEMENT OF APPROPRIATIONS (SCHOOL FOR THE DEAF)**For The Biennium Ended June 30, 2007**

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 5,035,602		\$ 5,035,602	\$ 4,451,200	\$ 584,402
Operating Expenses	1,377,265		1,377,265	1,371,407	5,858
Capital Improvements	279,495		279,495	100,466	179,029
Totals	<u>\$ 6,692,362</u>		<u>\$ 6,692,362</u>	<u>\$ 5,923,073</u>	<u>\$ 769,289</u>
Expenditures by Source:					
General Fund	\$ 5,365,097		\$ 5,365,097	\$ 5,245,938	\$ 119,159
Other Funds	1,327,265		1,327,265	677,135	650,130
Totals	<u>\$ 6,692,362</u>		<u>\$ 6,692,362</u>	<u>\$ 5,923,073</u>	<u>\$ 769,289</u>

Appropriation Adjustments:

There were no appropriation adjustments for the School for the Deaf during the biennium ended June 30, 2007.

Expenditures Without Appropriations Of Specific Amounts:

Conference Fund is non-appropriated per OMB Policy 211 (\$2,415 of expenditures for this biennium).

STATEMENT OF APPROPRIATIONS (BLIND/VISION SERVICES)

For The Biennium Ended June 30, 2007

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 2,696,280		\$ 2,696,280	\$ 2,496,579	\$ 199,701
Operating Expenses	607,306		607,306	543,048	64,258
Capital Improvements	67,470		67,470	58,949	8,521
Totals	<u>\$ 3,371,056</u>		<u>\$ 3,371,056</u>	<u>\$ 3,098,576</u>	<u>\$ 272,480</u>
Expenditures by Source:					
General Fund	\$ 2,524,609		\$ 2,524,609	\$ 2,524,524	\$ 85
Other Funds	846,447		846,447	574,052	272,395
Totals	<u>\$ 3,371,056</u>		<u>\$ 3,371,056</u>	<u>\$ 3,098,576</u>	<u>\$ 272,480</u>

Appropriation Adjustments:

There were no appropriation adjustments for Blind/Vision Services during the biennium ended June 30, 2007.

Expenditures Without Appropriations Of Specific Amounts:

Visual Aids and Appliances Fund has a continuing appropriation authorized by NDCC section 25-06-10 (\$14,571 of expenditures for this biennium).

Federal Quota is an annual credit at the American Printing House for the Blind that the agency can use to purchase educational materials for the legally blind (\$119,514 of expenditures for this biennium).

Internal Control

In our audit for the biennium ended June 30, 2007, we identified the following areas of the Department of Public Instruction's internal control as being the most important:

Internal Controls Subjected To Testing

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the computer-based Child Food and Nutrition System.
- Controls surrounding the Foundation Aid Payment System.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered significant. We concluded that internal control was not adequate noting certain matters involving internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department of Public Instruction's operations or ability to record, process, summarize and report financial data consistent with the assertions of management in financial statements. Reportable conditions are described below. We also noted other matters involving internal control that we have reported to management of the Department of Public Instruction in a management letter dated November 7, 2007.

Finding 07-1

COMPUTER ACCESS CONTROLS WEAKNESS

Controls surrounding access to critical information systems are not adequate at the Department of Public Instruction, State Library, School for the Deaf, and Blind/Vision Services. The following weaknesses were observed:

- Foundation Aid Payment system at the Department of Public Instruction:
 - Three individuals had multiple user ID's.
 - Three user ID's had no name assigned to the user ID.
 - A total of 15 different programmers had full access to the Foundation Aid Payment system.

- Food and Nutrition Program at the Department of Public Instruction:
 - Five individuals had system administrator access (four with full access and one with limited access) which was beyond their listed job duties.
- PeopleSoft system at the Department of Public Instruction:
 - Numerous individuals had access beyond their listed job duties in the general ledger, accounts payable, and fixed asset modules.
 - A former employee still had access to the accounts receivable module in PeopleSoft and the Department of Public Instruction does not use this module.
 - Two former employees no longer have access to the PeopleSoft financial environment but are still shown on the access listing for the system.
- PeopleSoft system at the State Library:
 - The individual that approved the payroll transactions also had the capability to update and modify payroll records in the payroll module.
 - A former employee still had access to the PeopleSoft financial environment but could not modify accounting records.
- PeopleSoft system at the School for the Deaf:
 - Two individuals had access to both process and approve transactions in the accounts payable module.
- PeopleSoft system at Blind/Vision Services:
 - The individuals approving transactions also had the capabilities to update and modify records in the accounts payable, payroll, and fixed asset modules.

Central objectives for Information Technology (CoBIT) states that management should have a control process in place to review and confirm access rights periodically. CoBIT is issued by the Information Systems Audit and Control Association and the IT Governance Institute. In addition, the Information Technology Department Access Control Standards state that “unique user ID’s and unique passwords shall be assigned to each user.” Without proper access controls, personnel have the opportunity to bypass many important controls, especially segregation of duties. Therefore, there is an increased risk of unauthorized transactions and also a greater chance of corruption of data.

Audit Recommendation
and Agency Response

Recommendations:

We recommend the Department of Public Instruction, State Library, School for the Deaf, and Blind/Vision Services:

1. Establish policies and procedures to restrict access privileges to only necessary individuals.
2. Assign ongoing responsibility for security for each information technology application.
3. Perform continuing reviews of access privileges.

Department of Public Instruction Response:

The Department of Public Instruction, State Library, School for the Deaf and Blind/Vision Services agree with the finding, and have strengthened security procedures surrounding access to computer applications.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2007, we identified and tested the Department of Public Instruction's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

Legislative Intent Subjected To Testing

- Adherence to payment restrictions for the distributions of special education aid (House Bill 1013, section 9 of the 2005 Legislative Session) and aid to public libraries (House Bill 1013, section 13 of the 2005 Legislative Session).
- Charges for the English language learner program (House Bill 1013, section 17 of the 2005 Legislative Session).
- Proper transportation efficiency training for school district personnel (House Bill 1154, section 34 of the 2005 Legislative Session).
- Proper amount used for reorganization bonuses (House Bill 1178, section 33 of the 2007 Legislative Session).
- The use of the Blind/Vision Services Operating Fund for statutory purposes (House Bill 2013, section 14 of the 2005 Legislative Session).
- Proper distribution of the annual school district finance facts report (Senate Bill 2083, section 2 of the 2005 Legislative Session).
- The use of the "Displaced Homemaker Fund" for statutory purposes (NDCC section 14-06.1-16).
- Proper submission of the annual school district finance facts report for the Department of Public Instruction (NDCC section 15.1-02-09).
- Tracking mechanism in place to ensure complete collection of the school district employee compensation reports (NDCC section 15.1-02-13).
- The use of the Revolving Printing Fund for statutory purposes (NDCC section 15.1-03-03).
- Proper ending fund balance amount was carried over by school districts (NDCC section 15.1-07-29).
- Compliance with the requirements for providing reorganization bonuses (NDCC section 15.1-12-11.1).
- Proper administration of the reading and math test to all public school students (NDCC section 15.1-21-08).
- Proper statutory rates collected for GED's (NDCC section 15.1-26.05).
- Proper preparation the existence of a biennial report for the Department of Public Instruction (NDCC section 54-06-04).
- Proper preparation of the biennial report for the State Library (NDCC section 54-24-03).

- Proper calculation of grants awarded to public libraries based on the formula cited in statute (NDCC section 54-24.2-02 and NDCC section 54-24.2-03).
- Compliance with the maintenance of local effort on grant awards to public libraries (NDCC section 54-24.2-02.2).
- Compliance with limitations on grant awards to public libraries (NDCC section 54-24.2-05).
- Proper completion and submission of the public library annual report (NDCC section 54-24.2-06).
- The use of the Vision Aids and Appliances Fund for statutory purposes (NDCC section 25-06-10).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2005 North Dakota Session Laws chapter 13).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper use of outside bank accounts, petty cash funds, and proper authority for investments outside the Bank of North Dakota.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*. This finding is described below. Other than this finding, we concluded there was compliance with the legislative intent identified above. We also noted certain immaterial instances of noncompliance that we have reported to management of the Department of Public Instruction in a management letter dated November 7, 2007.

Finding 07-2

NONCOMPLIANCE WITH IN-STATE LODGING EXPENSE REIMBURSEMENT LAW

The State Library improperly reimbursed employees for in-state lodging expenditures. Seven out of the twenty travel vouchers tested had reimbursements made for in-state lodging that were for more than the \$50 plus tax amount authorized by the Legislature for fiscal years 2006 and 2007. The reimbursement amounts varied from \$55 to \$69 plus tax per night for a total of \$128 that was overpaid on the seven travel vouchers.

Section 44-08-04 of the North Dakota Century Code (NDCC) states that for fiscal years 2006 and 2007 in-state lodging expenses must be reimbursed for actual lodging expenses not to exceed fifty dollars plus any additional applicable state or local taxes. As a result, the State Library is not in compliance with NDCC.

Audit Recommendation
and Agency Response

Recommendation:

We recommend that the State Library comply with Section 44-08-04 of the North Dakota Century Code regarding reimbursement of in-state lodging expenditures.

Department of Public Instruction Response:

The State Library agrees with the finding, and will make every effort to comply with Section 44-08-04 of the North Dakota Century Code regarding reimbursement of in-state lodging expenditures.

Operations

Our audit of the Department of Public Instruction identified the following areas of potential improvements to operations:

Operational
Improvement 07-1

GRANT CLOSING PROCEDURES

Challenge:

The Department of Public Instruction, State Library, School for the Deaf, and Blind/Vision Services do not have adequate procedures to close out grants that have been completed.

A review of the grants listed as active on the PeopleSoft system for all four agencies revealed that 107 of the 194 grants should be closed out and deactivated based upon the grant's activation date (older than 27 months) and/or grant balance amount (amount less than \$100).

Office of Management and Budget Policy 213 states that grants should be closed out once they are completed. Furthermore, grants can only be inactivated by the Office of Management and Budget. Without the proper closeout of grants, errors in reporting to the wrong fund could occur.

Operational Improvement:

We recommend the Department of Public Instruction, State Library, School for the Deaf, and Blind/Vision Services improve its grant closing procedures to ensure completed grants are properly closed out, at least at fiscal year end. Additionally, the Office of Management and Budget needs to be notified to have grants inactivated.

Department of Public Instruction Response:

The Department of Public Instruction, State Library, School for the Deaf, and Blind/Vision Services agree with the Operational Improvement noted, and have strengthened grant closing procedures to ensure completed grants are properly closed out at fiscal year end.

PURCHASE CARD USAGE

Challenge:

The Department of Public Instruction, State Library, School for the Deaf, and Blind/Vision Services have implemented the use of purchase cards (P-cards) for use in the procurement of small dollar purchases. However, the P-cards were not used as often as they could have been.

- The Department of Public Instruction used the P-card for 38% of the total operating expenditures that may have qualified under the P-card program (\$160,823 was spent of a possible \$423,374).
- The State Library used the P-card for .8% of the total operating expenditures that may have qualified under the P-card program (\$2,214 was spent of a possible \$274,432).
- The School for the Deaf used the P-card for 28% of the total operating expenditures that may have qualified under the P-card program (\$120,684 was spent of a possible \$439,120).
- The School for the Blind used the P-card for 46% of the total operating expenditures that may have qualified under the P-card program (\$81,111 was spent of a possible \$177,634).

Generally, small purchases make up a large percentage of purchasing transactions but represent only a small percentage of dollars spent. Therefore, reducing the administrative costs of processing these small dollar purchases is very important. The state P-card program was developed to reduce the paperwork and administrative costs associated with small purchases.

Operational Improvement:

We recommend that the Department of Public Instruction, State Library, School for the Deaf, and Blind/Vision Services utilize the P-card program by using purchasing cards whenever possible, following the guidelines contained in OMB Policy 300 – Purchasing Card and the Purchasing Card Users Manual issued by the Office of Management and Budget.

Department of Public Instruction Response:

The Department of Public Instruction, State Library, School for the Deaf and Blind/Vision Services agree with the Operational Improvement noted, and will continue to enhance the P-Card program and will comply with the OMB Fiscal Policy Number 300.

Prior Recommendations Not Implemented

Recommendations from the prior audit have been implemented with the exception of the following:

Recommendation

We recommend the Department of Public Instruction, State Library, School for the Deaf, and Blind/Vision Services properly restrict access to the PeopleSoft system to ensure only authorized personnel have access to make changes, record transactions, or approve transactions in accordance with their assigned duties to secure adequate segregation of duties.

Status

Not Implemented – Recommendation re-addressed at page 19.

Management Letter (Informal Recommendations)

November 7, 2007

Dr. Wayne Sanstead, Superintendent
Department of Public Instruction
600 E. Boulevard Avenue
Bismarck, ND 58505

Dear Dr. Sanstead:

We have performed an audit of the Department of Public Instruction for the biennium ended June 30, 2007, and have issued a report thereon. As part of our audit, we gained an understanding of the Department of Public Instruction's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status as non-reportable conditions.

The following present our informal recommendations.

CASH

Informal Recommendation 07-1:

We recommend the Department of Public Instruction wait until after the State Treasurer's Office posts the deposit on PeopleSoft (the Journal Status should read "P") to do the reconciliation of the remittance list to the deposit.

Informal Recommendation 07-2:

We recommend the Department of Public Instruction:

- Have the individual performing the reconciliation of the United States Department of Education funds sign off on the actual reconciliation.
- Have someone independent of drawing down United States Department of Agriculture (USDA) funds perform a reconciliation of the USDA funds shown on the reports to the federal revenue reflected on PeopleSoft.

Informal Recommendation 07-3:

We recommend the State Library properly complete its grant receivable closing package.

Informal Recommendation 07-4:

We recommend the State Library:

- Obtain an award profile report from each federal agency that the State Library receives federal funds.
- Have someone independent of drawing down federal funds perform a reconciliation of the federal funds shown on the reports to the federal revenue reflected on PeopleSoft, at least annually.

ACCOUNTS PAYABLE/EXPENDITURES

Informal Recommendation 07-5:

We recommend that the Department of Public Instruction properly code expenditures using the proper account, class, and fund.

Informal Recommendation 07-6:

We recommend that the Department of Public Instruction:

- Have the P-card administrator Print off the SAM Transaction Report on a monthly basis to serve as the Agency-wide P-card statement.
- Have the P-card administrator reconcile the individual P-card statements to the SAM Transaction Report. The P-card administrator should also initial the agency-wide statement (SAM Transaction Report) to verify that the statement reconciled with the individual P-card statements and the cardholder's P-card Record.

Informal Recommendation 07-7:

We recommend that the Department of Public Instruction only charge allowable expenditures to federal grants.

PAYROLL

Informal Recommendation 07-8:

We recommend the Department of Public Instruction, State Library, and the School for the Deaf implement procedures to ensure the One-Time Payment Query is reviewed and approved monthly by an appropriate level of management.

LEGISLATIVE INTENT

Informal Recommendation 07-9:

We recommend that the Department of Public Instruction contact OMB to change the fund status for Fund 205 to inactive.

Informal Recommendation 07-10:

We recommend the Department of Public Instruction:

- Dispose surplus property in accordance with Section 54-44-04.06 of North Dakota Century Code.
- Communicate inventory additions and deletions to the individual responsible for maintaining fixed asset records.
- Maintain accurate inventory records of only those items that the Department has ownership of.
- Ensure annual physical inventories are taken accurately.

Informal Recommendation 07-11:

We recommend the Department of Public Instruction properly maintain adequate documentation to ensure compliance with the required procurement policies.

Informal Recommendation 07-12:

We recommend the State Library comply with NDCC 54-24-03(7):

1. By including statistical data outlined in the North Dakota Public Library Statistics Report in its full biennial report, or
2. Suggest legislation to change the law to say that the State Library shall make a separate statistical report...and make a full biennial report.

Informal Recommendation 07-13:

We recommend the School for the Deaf implement use of the Fixed Assets module of ConnectND Financials for buildings and infrastructure.

Informal Recommendation 07-14:

We recommend the School for the Blind properly capitalize building improvements in accordance with OMB Fiscal and Administrative Policy.

GENERAL

Informal Recommendation 07-15:

We recommend that the Department of Public Instruction restrict access to all spreadsheets used to track grant payments and/or calculate grant award allocations to ensure only authorized individuals have the ability to make changes to the spreadsheets.

Management of the Department of Public Instruction agreed with these recommendations.

I encourage you to call myself or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

Delan Hellman
Auditor in-charge